

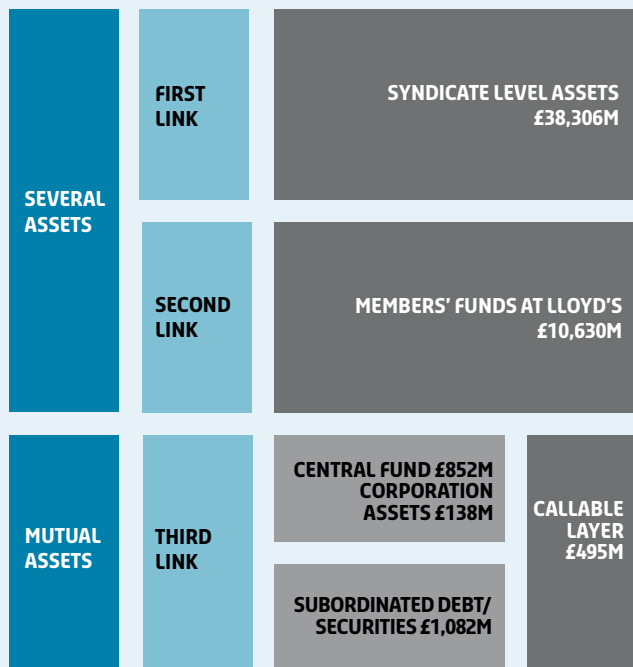
LLOYD'S

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CHAIN OF SECURITY 2009
THREE LAYERS OF FINANCIAL BACK-UP



CHAIN OF SECURITY

LINKS STRENGTH WITH STABILITY



Financial strength

The chain of security

Lloyd's unique capital structure, often referred to as the 'chain of security', provides excellent financial security to policyholders and capital efficiency to members.

The Corporation is responsible for setting both member and central capital levels to achieve a level of capitalisation that is robust and allows members the potential to earn superior returns.

There are three 'links' in the chain: the funds in the first and second links are held in trust, primarily for the benefit of policyholders whose contracts are underwritten by the relevant member. Members underwrite for their own account and are not liable for other members' losses.

The third link contains mutual assets held by the Corporation. These are available, subject to Council approval, to meet any member's insurance liabilities.

All figures as at 31 December 2008.

CHAIN OF SECURITY

LINKS STRENGTH WITH STABILITY

continued

First link

Syndicate level assets

All premiums received by a syndicate are held in its premium trust funds, and are the first resource for paying policyholder claims from that syndicate. Funds are generally held in liquid assets to ensure that liabilities can be met as they fall due. Profits are not released until full provision has been made for future liabilities. The reserves for future liabilities of each syndicate are subject to annual independent audit and actuarial review.

Second link

Members' funds at Lloyd's

Each member, whether corporate or individual, must provide capital to support its underwriting at Lloyd's. In accordance with the FSA regime, each syndicate produces an Individual Capital Assessment (ICA) stating how much capital it requires to cover its underlying business risks at a 99.5% confidence level.

The Corporation reviews each syndicate's ICA to assess the adequacy of the proposed capital level. When agreed, each ICA is then 'uplifted' (by 35% for 2008) to ensure extra capital is in place to support Lloyd's ratings and financial strength. This uplifted ICA, known as the syndicate's Economic Capital Assessment, is used to determine the level of capital required by the syndicate's members to support their underwriting. This capital is held in trust as readily realisable assets and can be used to meet any Lloyd's insurance liabilities of that member, but not the liabilities of other members.

Third link

Central assets

The Corporation's central assets are the third level of security. The Central Fund is funded by members' annual contributions, and subordinated debt issued by the Corporation in 2004 and 2007. In addition to the Central Fund and other assets of the Corporation, central assets may be supplemented by a 'callable layer' of up to 3% of members' overall premium limits.

Through detailed analysis, the Corporation determines the optimum level of central assets, seeking to balance the need for robust financial security against members' desire for cost-effective mutuality of capital. In particular, the Corporation's sophisticated modelling tests each member's underwriting portfolio against a number of scenarios and a range of forecasts of market conditions.

The Corporation's target for unencumbered central assets is a minimum of £1.7bn. Members' contributions to the Central Fund remain at 0.5% of gross written premiums for 2009. The Council of Lloyd's regularly reviews the central assets target and the level of contributions in light of the current financial position and forecast needs, and will adjust the contribution levels as required.

Lloyd's ICA and solvency

The Corporation also prepares an ICA for Lloyd's overall, using the FSA's six risk categories to examine the risks that are not captured in each syndicate's ICA. The Corporation, for example, must consider the risks posed by a global pandemic or damage to the Lloyd's building. In addition, the Corporation calculates the statutory solvency position of the Society of Lloyd's and reports this to the FSA. As at 31 December 2008, the Society had an estimated solvency surplus of £2,475m.

All figures as at 31 December 2008.

LLOYD'S RATINGS

Lloyd's strength and robust capitalisation is reflected in our ratings. In 2008, all three rating agencies affirmed Lloyd's ratings, reinforcing our resilience and the financial strength of the market.

The Lloyd's financial strength ratings apply to every policy issued by every syndicate at Lloyd's since 1993.

"Lloyd's has a strong competitive position in the global insurance market and benefits from its reputation for innovative and flexible underwriting. Its competitive strength derives from its marketplace structure that fosters the development of strong specialist underwriting skills."

A.M. Best

July 2008

LLOYD'S RATINGS

Fitch Ratings **A+ (Strong)**¹

Standard & Poor's **A+ (Strong)**²

A.M. Best **A (Excellent)**³



¹ Fitch Ratings affirmed its Lloyd's financial strength rating and assigned a Stable Outlook, August 2008.

² Standard & Poor's affirmed its Lloyd's financial strength rating and assigned a Stable Outlook, July 2008.

³ A.M. Best affirmed its Lloyd's financial strength rating with a Stable Outlook, July 2008.



Lloyd's One Lime Street London EC3M 7HA
Telephone +44 (0)20 7327 1000 Fax +44 (0)20 7626 2389
www.lloyds.com